United Nations TD/B/62/3

United Nations Conference on Trade and Development

Distr.: General
6 July 2015

Original: English

Trade and Development Board
Sixty-second session
Geneva, 14–25 September 2015
Item 10 (b) of the provisional agenda
Report on UNCTAD assistance to the Palestinian people

Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory*

Note by the UNCTAD secretariat**

Executive summary

In 2014, the economy of the Occupied Palestinian Territory witnessed the first recession since 2006 and the second consecutive decline in gross domestic product (GDP) per capita. In addition, the number of Israeli settlers has quadrupled since the Oslo Accords in 1993 and 1995; presently they outnumber Palestinians in Area C, which represents 61 per cent of West Bank area. During the first four months of 2015, Israel once again withheld Palestinian clearance revenue, which represents 75 per cent of total revenue. The ensuing liquidity crisis slowed economic activities and will weigh down GDP growth in 2015. The Gaza Strip endured the third conflict with full-scale military operation in six years, coming on top of eight years of economic blockade. Reconstruction efforts are extremely slow relative to the magnitude of devastation, and Gaza's local economy did not have a chance to recover. Socioeconomic conditions are at their lowest point since 1967.

Despite limited resources, UNCTAD delivered technical cooperation, training and advisory services to the Palestinian public and private sectors, and successfully completed a project on developing Palestinian trade facilitation capacity. UNCTAD's efforts were acknowledged by the General Assembly of the United Nations in resolution 69/20.

* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term "Palestine" refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the "State of Palestine" are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

** This report should not be quoted by the press before 1 September 2015.

GE.15-11367(E)

Please recycle

I. Mobility restrictions, blockade, settlers' violence and economic volatility and contraction

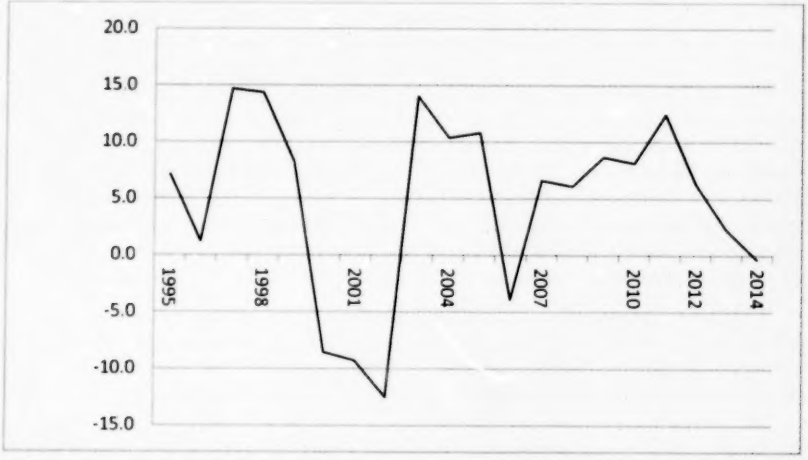
1. Hopes for sustainable development to begin in the Occupied Palestinian Territory sustained another setback in 2014 and early 2015. The Israeli military operation in the Gaza Strip, which took place during the conflict in July and August 2014, sent the Palestinian economy into its first recession since 2006.[1] Given 5 per cent GDP growth in the West Bank and a drop of 15 per cent in Gaza's GDP, the economy of the Occupied Palestinian Territory contracted by 0.4 per cent in 2014 and GDP per capita further shrank by 3.3 per cent in 2014. The prospects for 2015 are bleak, due to volatile political conditions, reduced aid flows, the slow pace of reconstruction in Gaza and lingering effects of Israel's withholding of Palestinian clearance revenue during the first four months of 2015 (World Bank, 2015).

2. As shown in figure 1, real GDP growth has been extremely unstable and determined by political events and donor support, which have been both unpredictable and outside the control of the Palestinian National Authority. The dominance of politics over Palestinian economic development is highlighted by the fact that the period of relative stability in 1995–1999 witnessed the most robust economic performance, while all episodes of economic contraction (2000–2002, 2006 and 2014) were preceded by political and military confrontations.

Figure 1

Growth rate of real gross domestic product

(Percentage)



3. The Palestinian economy is the economy of an occupied territory, and therefore – contrary to the claims of some observers – the efficacy of donor support has been undermined by occupation, not by the inadequacy of Palestinian National Authority policies or poor donor coordination. The fiscal burden of the humanitarian crises and the occupation-related fiscal losses have diverted donor aid from development to humanitarian interventions and budget support. No amount of aid would have been sufficient to put any economy on a path of sustainable development under conditions of frequent military strikes

[1] In the third quarter of 2014 alone, during the conflict, Gaza's GDP declined by 32 per cent.

and destruction of infrastructure, isolation from global markets, fragmentation of domestic markets and confiscation and denial of access to national natural resources.

Table 1

Economy of the Occupied Palestinian Territory: Key indicators[a]

	1995	*1999*	*2002*	*2006*	*2009*	*2012*	*2013**	*2014**
Macroeconomic performance								
Real gross domestic product growth (percentage)	7.1	8.3	-12.5	-3.9	8.7	6.3	2.2	-0.4
Gross domestic product, nominal (millions of dollars)	3 283	4 271	3 556	4 910	7 268	11 279	12 476	12 766
Gross national income, nominal (millions of dollars)	3 723	5 025	3 775	5 333	7 800	12 137	13 636	14 147
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	6 624	9 941	13 887	14 825	16 862
Gross domestic product per capita, nominal (dollars)	1 427	1 553	1 182	1 449	1 963	2 787	2 992	2 973
Gross national income per capita, nominal (dollars)	1 618	1 827	1 255	1 573	2 107	2 999	3 271	3 295
Real gross domestic product per capita growth (percentage)	-0.2	4.8	-15.0	-6.8	5.6	3.1	-0.8	-3.3
Real gross national income per capita growth (percentage)	0.5	4.7	-16.1	-5.4	3.2	3.6	0.5	-2.4
Population and labour								
Population (millions)[a]	2.34	2.96	3.23	3.61	3.94	4.29	4.42	4.55
Unemployment (percentage)[b]	32.6	21.7	41.2	29.8	30.1	26.7	27.0	29.8
Total employment (thousands)	417	588	452	636	718	858	885	917
In public sector	51	103	125	148	181	195	204	210
In Israel and settlements	68	135	42	55	73	83	99	107
Fiscal balance (percentage of gross domestic product)								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	22.0	18.4	18.5	21.5
Current expenditure (commitment basis)	15.0	22.1	28.0	46.4	43.9	31.4	29.6	31.9
Total expenditure (cash basis)	25.1	29.3	34.2	52.1	46.3	28.9	27.4	28.2
Overall balance (cash basis)	-12.1	-5.9	-26.0	-27.1	-24.4	-10.5	-8.9	-6.7
External trade								
Net current transfers (millions of dollars)	400	373	1 051	1 291	2 141	1 750	1 189	2 715
Exports of goods and services (millions of dollars)	562	752	478	736	1 133	1 871	2 072	2 298
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	3 683	4 943	6 300	6 804	7 781
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-2 947	-3 810	-4 429	-4 732	-5 483
Trade balance (percentage of gross domestic product)	-57.2	-61.2	-49.4	-60.0	-52.4	-39.3	-37.9	-43.0
Trade balance with Israel (millions of dollars)	-922	-1'598	-886	-1 887	-2 558	-3 302	-3 115	-2 514
Trade balance with Israel (percentage of gross domestic product)	-28.1	-37.4	-24.9	-38.4	-35.2	-29.3	-25.0	-19.7
Palestinian National Authority trade with Israel/total Palestinian National Authority trade (percentage)[c]	83.5	67.5	56.9	64.4	65.1	63.5	59.7	49.2
Palestinian National Authority trade with Israel/total Israeli trade (percentage)[c]	4.2	3.7	1.8	2.2	2.9	2.8	2.9	2.6

Sources: Israel Central Bureau of Statistics, Palestinian Central Bureau of Statistics and Palestinian Ministry of Finance.

* Preliminary estimates. In 2014, the Palestinian Central Bureau of Statistics revised all national accounts data going back to 1995.

[a] Except for the population figures, all data exclude East Jerusalem, due to the fact that the Palestinian Central Bureau of Statistics has no access to the city.

[b] This follows the relaxed International Labour Organization definition of unemployment, which includes discouraged workers.

[c] Palestinian and Israeli trade data refer to goods and non-factor and factor services.

4. As indicated in table 1, in 2014, unemployment increased by 3 percentage points to 30 per cent: 44 per cent in Gaza (the highest level on record) and 18 per cent in the West Bank. However, the real depth of unemployment and the attendant waste of human resources are greater than that indicated by unemployment rates, due to the prevalence of underemployment and masked unemployment.

5. The contraction of the Palestinian per capita GDP by 3.3 per cent and the extremely high unemployment rates subject large sections of the Palestinian population to poverty and food insecurity. Before the military operation in Gaza and the economic contraction in 2014, food insecurity in the Occupied Palestinian Territory was already very high, with one in three households food insecure, according to 2013 data. Conditions were worse in Gaza, where nearly 6 in 10 households were food insecure compared to 1 in 5 households in the West Bank (Palestinian Central Bureau of Statistics et al., 2014).

6. Israeli settlements in the West Bank continued to expand, and the number of settlers has quadrupled since the Oslo Accords. Today, settlers outnumber Palestinians in Area C (61 per cent of West Bank area), which includes the most valuable Palestinian natural resources. Overall, 341,000 Israeli settlers live in 235 settlements and outposts in Area C, compared to 300,000 Palestinians (United Nations, Office for the Coordination of Humanitarian Affairs (OCHA), 2014a). Settlers' violence against Palestinians and their productive assets continued, with 9,333 productive trees destroyed or vandalized in 2014. The violence escalated in 2015; in January alone, another 5,600 trees across the West Bank were uprooted or vandalized (OCHA, 2015).

7. Towards the end of 2014, the movement of Palestinian people and goods in the West Bank was hindered by 490 barriers installed by Israel, including checkpoints, roadblocks, trenches and the Separation Barrier, which runs into the Occupied Palestinian Territory and unilaterally redefines the borders away from the internationally recognized Green Line (OCHA, 2014b). Gaza remained under a blockade that isolates it from the world and its traditional markets in the West Bank and Israel, which absorbed some 85 per cent of its exports before the blockade.

8. The high costs and unpredictability fostered by multiple constraints on movement subvert the actual and potential investment of exports-oriented firms and exacerbate the dependence of the Occupied Palestinian Territory on imports. In 2014, imports jumped from 55 to 61 per cent of GDP, but exports failed to keep pace and the trade deficit widened from 38 to 43 per cent of GDP. Isolation from global markets forced the Occupied Palestinian Territory into overwhelming dependence on unbalanced trade with Israel. In 2014, the Palestinian trade deficit with Israel was more than $2.5 billion, or 93 per cent of net current transfers (table 1).

A. Frequent withholding of Palestinian clearance revenue worsens fragile fiscal conditions

9. Despite the adverse conditions, the Palestinian National Authority continued its fiscal reforms and was able to increase revenue and reduce the fiscal deficit from 12.6 per cent of GDP in 2013 to 11.9 per cent in 2014. This was made possible by a 20 per cent rise in clearance revenue (customs, value added tax and petroleum excise). However, the Israeli military operation in Gaza in 2014 forced the Authority to double transfers to Gaza in July and increase spending on medical transfers to care for the injured (World Bank, 2014a). Donor support was not sufficient to cover the $1.6 billion budget deficit, leaving the Authority to accumulate an additional $497 million in arrears.

10. The International Monetary Fund (IMF) projects that recent destruction in Gaza will increase the fiscal deficit by an additional 3 per cent of GDP (IMF, 2015). Unless donors

increase aid to the Palestinian National Authority in 2015 and beyond, socioeconomic conditions in the Occupied Palestinian Territory will become more dire, jeopardizing not only the institutional achievements of the Palestinian National Authority, but the Authority itself, with unpredictable political consequences.

11. Clearance revenue is the largest source of Palestinian public revenue; at $2.1 billion in 2014, it accounted for 75 per cent of total revenue. It could cover the Palestinian National Authority's public wage bill or 50 per cent of its current expenditure. However, according to the present revenue clearance mechanism, established by the Protocol on Economic Relations, signed in Paris in 1994, Israel collects taxes on Palestinian imports on behalf of the Palestinian National Authority and then transfers them to the Authority after levying 3 per cent collection and processing fees. Effectively, this has left the Palestinian National Authority exposed not only to the actual withholding of revenue by Israel, but also to a continuous threat of withholding.

12. The importance of clearance revenue is reinforced by the fact that it is received on a monthly basis, making it a stability valve that mitigates the impact of the unpredictability and irregularity of donor aid disbursements. In recent years, the declining trend in donor aid and the Palestinian National Authority's reliance on clearance revenue has heightened Palestinian vulnerability to unilateral suspension of clearance revenue transfers by Israel.

13. Clearance revenue in the first quarter of 2015 increased by 4.2 per cent due to an increase in customs and petroleum excise revenue. However, the potential benefits of greater revenue were pre-empted as Israel suspended clearance revenue transfers to the Palestinian National Authority following application by the State of Palestine for membership in the International Criminal Court. This suspension deprived the Authority of about $164 million per month from the end of December 2014 to April 2015 (Palestinian Ministry of Finance, 2015). The four-month suspension of revenue transfers aggravated the Authority's already tenuous fiscal situation and resulted in a GDP slowdown, which will most likely lead to weakened growth performance in 2015.

14. The withholding of revenue clearance forced the Palestinian National Authority to resort to domestic borrowing, accumulating arrears to the private sector and paying public employees only 60 per cent of their salaries. This reduced aggregate demand through the withdrawal of 50 per cent of the Authority's expenditure from the economy, including the 40 per cent reduction in income for the 215,000 public employees.

15. The episode of revenue withholding in early 2015 elevated the already high exposure of the domestic banking system to the Palestinian National Authority and its employees, who account for 23 per cent of total employment. Moreover, its impact will not be confined to the short term but will linger into the future, with negative implications for GDP growth, investment, employment, public debt and stability of the banking system. The suspension of revenue transfers will also weaken the Authority's future fiscal position via reduced growth prospects and accumulation of interest payment obligations.

16. Israel released clearance revenue at the end of April 2015, but the fiscal and economic damage had already been done. Furthermore, before the release of revenue, in addition to the 3 per cent processing fee, Israel deducted 20 per cent from the accumulated clearance revenue against Palestinian imports of water and electricity and medical bills owed by Palestinians. Israel's original intention had been to deduct 40 per cent, but the Palestinian National Authority disputed the bill for electricity imports from the Israel Electric Corporation, on the grounds that Palestinians had no access to 230 electricity transmission points (to the Occupied Palestinian Territory) and hence the amount of electricity actually imported from Israel could not be measured or verified. Israel's deductions from Palestinian clearance revenue are unilaterally made on a regular

basis. However, the process lacks the transparency required for verification by the Palestinian side, as discussed below.

17. The latest withholding of clearance revenue was not an isolated incident. Previous episodes of revenue withholding by Israel include the following:

(a) November 2012, for four months (following recognition of Palestine as a non-member observer State by the General Assembly)

(b) May 2011, for one month (following Palestinian national reconciliation efforts)

(c) March 2006, for 1.5 years (following Palestinian legislative elections)

(d) October 2000, for two years (following the start of the second Intifada)

(e) August 1997, for two months (following deterioration in the political and security conditions)

18. The accumulated periods of the six episodes of revenue withholding total four years and one month, during which about $3 billion was withheld (for (b) and (c) see Kock and Qassis, 2011).

19. The deleterious macroeconomic impact of fiscal volatility is well established in the literature. For instance, one study indicates that increased fiscal policy uncertainty has a detrimental impact on investment, consumption, inflation and overall economic activity (Fernandez-Villaverde et al., 2013). The study also finds that the negative impact of fiscal volatility is especially high and may induce stagflation when the monetary space is thin and cannot be used to offset contractionary fiscal shocks. This is the situation in the Occupied Palestinian Territory.

B. Electricity importation: Another source of Palestinian fiscal leakage

20. The Oslo Accords set limits for the Palestinian production and importation of energy and the Palestinian energy sector is therefore highly dependent on energy imports from Israel. The Israel Electric Corporation supplies 88 per cent of electricity consumption in the Occupied Palestinian Territory and 95 per cent of electricity consumption in the West Bank. In 2013, it supplied 63 per cent of Gaza's electricity, while the Gaza power plant and Egypt supplied 29 and 8 per cent, respectively. In 2013, the Occupied Palestinian Territory imported electricity from Israel at the cost of $660 million.

21. Importing electricity from Israel is another source of loss of Palestinian fiscal resources and consumer welfare. When Palestinian electricity distributors (municipalities, village councils and distribution companies) fail to pay the Israel Electric Corporation, Israel deducts from the Palestinian National Authority's clearance revenue and registers any remaining balances as debt owed to the Corporation, to be deducted from clearance revenue at later dates. Such deductions also cover sewage fees and water imports, and are referred to as net lending. They are deducted by Israel without the consent of or verification by the Authority, in a unilateral, non-transparent and unpredictable manner (World Bank, 2014b). Between 2010 and 2013, net lending accounted for 11 per cent of clearance revenue.

22. The Israel Electric Corporation issues monthly invoices to Palestinian distributors, to be paid within 11 days. Any delay in payment leads to 10 per cent annual late fees, although Palestinian distributors do not receive invoices in a timely or regular manner and lack access to meters located in Area C in the West Bank and in Gaza near the border with Israel. This makes them unable to compile relevant information and does not allow them to collect the cost of consumption from end users within the period specified by the Corporation. The late payment penalties plus added interest charges unilaterally set by

Israel are excessive as they exceed market interest rates. Furthermore, the Corporation charges Palestinians a price that includes non-applicable components, such as the renewable energy component, which should not be borne by Palestinian importers (World Bank, 2014b).

23. As indicated above, Israel imposes fines and high interest rates on the Palestinian National Authority even for short-term delays in Palestinian payments for electricity, water and sewage bills, yet Israel does not pay interest on money it does not transfer to the Authority when withholding Palestinian clearance revenue, which is in the range of hundreds of millions of dollars. Periods of withholding extend to months and sometimes years.

24. More than two decades since the Oslo Accords, approval from Israel's Civil Administration continues to be required prior to the installation of new, or enhancement of capacity of existing, electricity connection points in the Occupied Palestinian Territory. Over the past decade, the Palestinian National Authority has been attempting to negotiate a new agreement with Israel related to Palestinian electricity importation, especially with regard to the payment conditions and price, which increased by 33 per cent between 2010 and 2013. However, similar to other areas in the Oslo Accords left for further negotiation, no progress has been achieved to date.

II. De-development and impoverishment of the Gaza Strip

25. Three Israeli military operations in the past six years, in addition to eight years of economic blockade, have ravaged the already debilitated infrastructure of Gaza, shattered its productive base, left no time for meaningful reconstruction or economic recovery and impoverished the Palestinian population in Gaza, rendering their economic well-being worse than the level of two decades previous. The most recent military operation compounded already dire socioeconomic conditions and accelerated de-development in the Occupied Palestinian Territory, a process by which development is not merely hindered but reversed.

26. Prior to the military operations, the blockade had already led to the large-scale cessation of productive operations and loss of employment. It inflicted large-scale destruction on Gaza's local economy, productive assets and infrastructure, and affected numerous industrial, agricultural, commercial and residential facilities either directly or indirectly through debilitated infrastructure and acute shortages of inputs, water, electricity and fuel.

27. Since the blockade initiated in 2007, exports from Gaza have been almost completely banned, imports and transfers of cash severely restricted and the flow of all but the most basic humanitarian goods suspended. The most recent military operation, in 2014, impacted an already paralyzed economy at a time when socioeconomic conditions were at their lowest since 1967. This operation therefore had a more severe impact on socioeconomic conditions compared to the previous two military operations in 2008 and 2012.

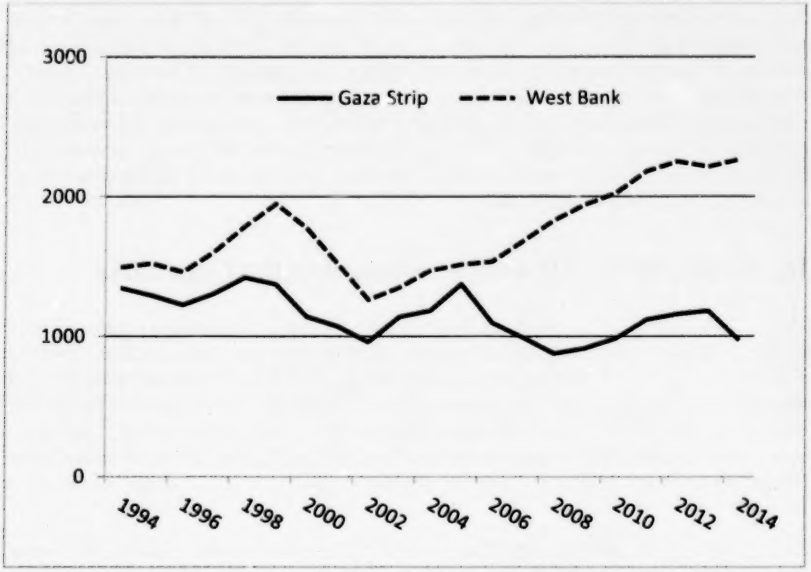
28. The recurrent military operations and economic siege have rendered Palestinians in Gaza more impoverished than they were before the Oslo Accords, and also compared to Palestinians in the West Bank, who are subject to significant but comparatively less destruction. While per capita GDP in Gaza today is at 72 per cent of the level in 1994, it is two thirds that of the level in the West Bank. As shown in figure 2, the gap between Gaza and the West Bank has widened since 2007, when mobility restrictions to and from Gaza were tightened by the blockade.

29. Unemployment trends in Gaza mirror trends in the GDP. In 2014, unemployment reached 44 per cent, the highest level on record. Unemployment among young women refugees[2] in Gaza is severe; statistics indicate that more than 8 out of 10 women in that demographic group are out of work. The ramifications of persistently high unemployment rates on the standard of living and Gaza's human capital will be long-lasting, as lost skills and human capital are difficult to replace and prolonged spells of unemployment deskill workers and render their education and training obsolete.

Figure 2

Real gross domestic product per capita in the Gaza Strip and the West Bank

(Constant 2004 dollars)



30. The latest military operation has effectively eliminated what was left of the middle class, sending almost all of the population into destitution and dependence on international humanitarian aid. With the destruction of the economy and its capacity to create jobs, food insecurity now affects 72 per cent of households (Office of the Quartet Representative (OQR), 2014). Consequently, the majority of the population is forced into dependency on humanitarian aid to meet basic needs. The number of Palestinian refugees solely reliant on food distribution from the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) increased from 72,000 in 2000 to 868,000 by May 2015, representing half the population of Gaza and 65 per cent of the registered refugees (UNRWA, 2015b).

A. Repeated military confrontations aggravate dire socioeconomic conditions in the Gaza Strip

31. Gaza and the West Bank have been under various mobility restrictions since their occupation in 1967. However, following the start of the second intifada in September 2000,

[2] Refugees account for 72 per cent of the population of Gaza.

mobility and other restrictions were tightened and economic conditions further deteriorated. In Gaza, economic conditions worsened after the Israeli disengagement from Gaza in August and September 2005, due to continued control by Israel of Gaza's airspace, maritime space and land crossings. Another turning point took place in 2007, when restrictions were raised to a blockade that isolated Gaza's exporters, importers, producers and consumers from the rest of the world.

32. In addition to the blockade, in a span of six years, Gaza endured three consecutive military operations: the first from 27 December 2008 to 18 January 2009, the second between 14 and 21 November 2012 and the third for 50 days from 7 July to 26 August 2014.

33. The United Nations Special Coordinator for the Middle East Peace Process, during a visit to Gaza in April 2015, summarized the extent of the destruction by stating that "no human being who visits can remain untouched by the terrible devastation that one sees here in Gaza" and as shocking as the devastation of the buildings might be, "the devastation of peoples' livelihoods is 10 times more shocking" (see http://www.un.org/apps/news/story.asp?NewsID=50738#.VZO3j4WIS1d). In October 2014, during a visit to Gaza, the Secretary-General of the United Nations stated the destruction was "beyond description" (see http://www.un.org/apps/news/story.asp?NewsID=49074#.VZO36YWIS1d).[3]

34. To date, no complete inventory of the economic effects and/or damage in Gaza during the latest military operation has been compiled, yet it has undoubtedly had a far more catastrophic impact on the population, infrastructure and productive base, compared to the previous two. Entire neighbourhoods were affected and almost one third of Gaza's population was displaced. According to OCHA and UNRWA, over 500,000 Palestinians were displaced during the operation, with some 100,000 continuing to be displaced by mid-2015.

35. OQR compiled a partial list of damages incurred by Gaza during the 2014 operation, which have significant economic and social effects, and reported the following (OQR, 2014):

(a) 18,000 housing units destroyed or severely damaged and 44,300 units damaged

(b) 26 schools destroyed and 122 damaged

(c) 15 hospitals and 45 primary health centres damaged

(d) Gaza's sole power plant affected by damage and lack of fuel and widespread damage to electricity lines

(e) 20–30 per cent of the water and sewage network damaged

(f) Water desalination plant in Deir al-Balah damaged

(g) Total damage to the agricultural sector at $550 million

(h) 220 agricultural wells destroyed or badly damaged

[3] Following this visit, in November 2014, the Secretary-General convened a board of inquiry to review and investigate 10 incidents affecting United Nations personnel, premises and operations in the Gaza Strip during the latest operation. The Secretary-General stated that it was "a matter of the utmost gravity that those who looked to [United Nations premises] for protection and who sought and were granted shelter there had their hopes and trust denied" and deplored "the fact that at least 44 Palestinians were killed as a result of Israeli actions and at least 227 injured at United Nations premises being used as emergency shelters" (S/2015/286).

(i) At least 40,000 people employed in the agricultural sector affected through damage to agricultural lands and the loss and/or death of productive animals

(j) 247 factories and 300 commercial establishments fully or partially destroyed

(k) Damages to Gaza Industrial Estate estimated at $5 million

(l) Widespread damage to landline, mobile and Internet infrastructure, including destruction of switches, fixed-line networks, cellular stations, networks, cables and the headquarters of companies

(m) Loss of existing contracts and partially approved future contracts of information and communications technology (ICT)-related businesses and software outsourcing centres

(n) A number of tourist sites destroyed or damaged, including sites being considered for application for World Heritage status from the United Nations Educational, Scientific and Cultural Organization

36. Another partial list of damages was compiled by the Palestinian Economic Council for Development and Reconstruction; estimated costs reflect only direct losses at present market value and do not include indirect losses or the loss of future income streams that could have been generated by damaged productive assets (Palestinian Economic Council for Development and Reconstruction, 2014). As shown in table 2, between 2012 and 2014, over 64,000 residential units and at least 1,000 industrial and commercial establishments were destroyed or damaged. The value (not cost of replacement) of assets in Gaza damaged as a result of the last two military operations is estimated at more than $2.7 billion. This is nearly equal to what could be produced by Gaza's economy in an entire year (93 per cent of Gaza's GDP in 2014).

Table 2

Estimated direct damage caused by military operations in Gaza, 2012 and 2014

(Costs in millions of dollars)

Type of damaged facility	*November 2012*		*July 2014*		*Total*	
(totally or partially damaged)	*Number*	*Cost*	*Number*	*Cost*	*Number*	*Cost*
Residential structures	8 298	73	56 000	1 304	64 298	1 377
Government, educational, religious and other structures	58	158	293	144	351	302
Infrastructure, roads, power station and utilities	-	74	-	119	-	193
Industrial and commercial establishments	-	213	1 000	360	1 000	573
Agricultural land and other related assets	-	120	-	138	-	258
Other losses	-	-	-	15	-	15
Total costs		638		2 080		2 718

37. Destroyed or damaged assets are not the only direct costs. Another source is the loss of GDP due to the interruption of production during military operations. The World Bank estimates that the 50-day interruption of productive activities in 2014 reduced Gaza's GDP by $460 million (World Bank, 2015). Adding the GDP loss to the costs of destruction as shown in table 2 gives a direct cost for the last two military operations of $3.2 billion. However, this is a minimal estimate that does not include indirect costs that arise from lost or degraded human capital, the economic multiplier effect and backward and forward linkages and future income streams from destroyed or damaged productive assets.

38. With regard to the military operation in December 2008–January 2009, UNCTAD estimates the direct economic losses at about $2.5 billion, or 160 per cent of Gaza's GDP in 2008 (UNCTAD, 2009). The total of the damages of the three military operations from 2008 to 2014 gives an amount of direct losses nearly equal to what could be produced

in three years by the 1.8 million Palestinians living in Gaza. However, the total cost may be substantially higher if indirect losses and lost future income streams are included.

39. The above discussion reveals that the magnitude, speed and complexity of the destruction make accurate assessment of the costs of damages and other occupation-related measures difficult. However, such an assessment is needed to identify the resource requirement for rehabilitation, reconstruction and reconstitution of the lost Palestinian productive base. In this respect, paragraph 31 (m) of the Doha Mandate requests UNCTAD to "continue to assess the economic development prospects of the Occupied Palestinian Territory and examine obstacles to trade and development". In addition, paragraph 9 of General Assembly resolution 69/20, adopted on 25 November 2014, requests UNCTAD to "report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people".

B. Long-lasting human capital and economic impact

40. Three years before the military operation in 2014, the United Nations conducted a study to forecast Gaza's living conditions in 2020. The study stressed that Gaza's population would increase from 1.6 million in 2011 to 2.1 million in 2020, and concluded that for Gaza to be a liveable place in 2020 "herculean efforts" needed to be accelerated in such sectors as health, education, energy, water and sanitation (United Nations, 2012). However, instead of such efforts, the tragedy in Gaza has deteriorated and its de-development was accelerated by destruction in 2014.

41. During the last six years, Gaza has endured severe human losses, with three military operations claiming the lives of at least 3,782 Palestinians and 95 Israelis.[4] According to OCHA and UNRWA, in 2014, Gaza witnessed the highest civilian death toll since 1967. By May 2015, 20 per cent of Gaza's population, or 360,000 people, needed treatment for mental health conditions, and there is already a serious shortages of such services. With regard to children, Gaza's future human capital, 521 lost their lives, and about 1,000 were injured and 400,000 are in need of immediate psychosocial support (OCHA, 2014c, and Save the Children, 2015).

42. Gaza's health facilities were not spared. During the most recent military operation, 17 hospitals and 56 primary health care centres were either destroyed or partially damaged. This includes one hospital, five primary health care centres and 45 ambulance vehicles that were completely destroyed and five hospitals and five primary health care centres that incurred severe damages (United Nations, 2014). Moreover, the destruction resulted in 2.5 million tons of debris, with the distinct possibility that the material used in building the destroyed property included harmful substances that endanger public and environmental health (World Health Organization (WHO), 2014). The destruction of vital health infrastructure will have long-lasting effects on Gaza's present and future human capital.

43. Similar to the decline of the health sector, Gaza's educational infrastructure experienced significant deterioration before 2014. The school system suffers from acute shortages of classrooms and more than 85 per cent of schools operate on a double shift basis. In the face of a severe housing crisis and the need for the construction of tens of thousands of housing units, as well as hundreds of new schools, the blockade continues to

[4] According to OCHA and the Israeli non-governmental organization B'Tselem, 79 of the 95 Israeli casualties in the three conflicts were from the security forces (see OCHA, 2014c, www.btselem.org/download/20090909_cast_lead_fatalities_eng.pdf and www.btselem.org/press_releases/20130509_pillar_of_defense_report).

create an artificial scarcity of construction materials. This renders new construction projects either impossible or overly expensive to the impoverished population. The social, health and security-related ramifications of the high population density and overcrowding are among the factors that may render Gaza unliveable by 2020, if present trends continue (United Nations, 2012).

C. Deepening crises related to water, energy, infrastructure and the environment

44. Large scale investment in water, electricity and sanitation infrastructure was needed even before the damage inflicted by the military operation in 2014. The operation resulted in severe damage on Gaza's water and sanitation infrastructure, including water wells and networks, tanks, desalination units, wastewater networks and pump stations. The preliminary static value of the damage is estimated by the Palestinian Water Authority at more than $34 million. However, long-term repair of the accumulated damage and decay of the water and sanitation infrastructure will require $620 million.

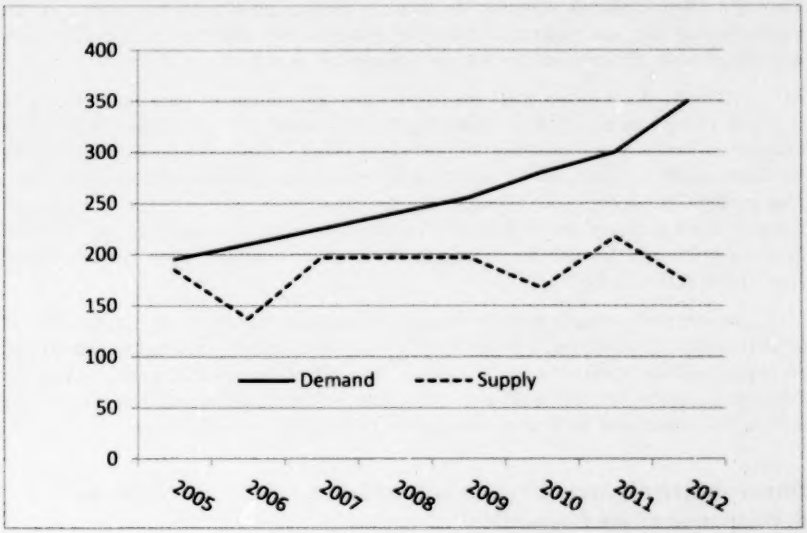
45. Gaza faces a severe water crisis. Gaza relies almost completely on a coastal aquifer as the sole source of freshwater. However, 95 per cent of the aquifer's water is not safe for drinking without treatment (Palestinian Water Authority, 2014). Years of over-abstraction have taken a heavy toll on Gaza's present and future water resources. Annual abstraction of water from the aquifer has been well above the recharge rate by over 100 million cubic meters, almost twice the sustainable rate. Consequently, groundwater levels have declined, seawater from the Mediterranean has infiltrated and salinity levels have increased, making the water unsafe for drinking according to WHO standards (World Bank, 2009).

46. The over-abstraction and scarcity of drinking water have been exacerbated by crumbling sanitation infrastructure, while the blockade creates chronic shortages of electricity and fuel, which in turn aggravate contamination and the water crisis. Untreated wastewater is often dumped into the sea and ultimately finds its way into the coastal aquifer. About 33 million cubic meters of untreated or partially treated wastewater are dumped every year in the Mediterranean. The damage of contamination and over-abstraction is such that the aquifer may be unusable by 2016 and, if unaddressed, the damage may be irreversible by 2020 (UNRWA, 2015a).

47. As early as 2009, the United Nations Environment Programme (UNEP) emphasized that prolonged over-abstraction and pollution jeopardized the sustainability of Gaza's aquifer unless it was rested (UNEP, 2009). The best suggested solution is to cease abstraction and install a monitoring system to continuously assess recovery. Once the aquifer recovers, sustainable abstraction may be resumed at carefully calculated levels. In the meantime, alternative solutions to the water crisis should be introduced, such as desalination, water importation, reduction of the loss of water in the distribution network, wastewater treatment and repairing of the sewage network.

48. Supply of electricity in Gaza has been persistently well below demand, even prior to the military operation in 2014, which damaged Gaza's single power generation station. Frequent cuts have undermined the economic activities of the private sector and affected residential homes, hospitals, schools and wastewater treatment plants. As shown in figure 3, twice the supply of electricity was needed to meet demand in Gaza in 2012.

Figure 3
Supply and demand for electricity in the Gaza Strip
(In megawatts)



49. The electricity and energy crisis is exacerbated by the fact that occupation does not allow Palestinians to develop and use the offshore natural gas fields discovered since the 1990s on the Mediterranean coast (Palestinian Economic Council for Development and Reconstruction, 2014). Two high-quality gas fields have been discovered; one entirely within the waters of Gaza and the other on the border with Israel. Natural gas from these fields could provide badly needed energy to the entire Occupied Palestinian Territory.

50. With the population expected to increase from 1.8 million to 2.1 million in five years, the water-related, electricity-related, infrastructural and environmental crises in Gaza can only deepen unless the blockade is lifted to allow importation of the equipment and spare parts necessary for rebuilding infrastructure. Lifting the blockade would help end the inefficient use of water in the agricultural sector and environmental degradation, by facilitating the resurgence of normal economic activities capable of generating large-scale employment opportunities in all sectors of the economy.

D. The Gaza Strip: The tunnel economy is another problem and not a solution

51. To mitigate the impact of the blockade on Gaza, a tunnel economy evolved and peaked between 2007 and 2013, with more than 1,532 underground tunnels running under the 12 km border between Gaza and Egypt. While the tunnels prevented the complete collapse of Gaza's economy, they were unsustainable, informal, uncontrolled and unregulated by governments on either side of the border. They were closed by mid-2013.

52. Tunnels should never have been perceived as substitutes for the fundamental human right of the Palestinian people to enjoy free and normal access to global markets that other peoples and countries take for granted. The tunnels were yet another mechanism to respond to the economic blockade of Gaza. Gaza requires a lifting of this blockade, not an unregulated underground economy.

53. However, it is illustrative to gauge the economic importance of the tunnels to highlight the urgent need for immediate lifting of the blockade. Between 2007 and 2013, the tunnels allowed for the importation of a wide range of essential consumer goods. They also allowed Gaza's producers to partially circumvent Israel's restrictions on the importation of fuel, gas, cement, construction materials, raw materials, pesticides, seeds, agricultural tools, preservatives, packaging material and spare parts.

54. The size of the tunnel trade was greater than the volume of trade through official channels (World Bank, 2014a). According to the United Nations Human Settlements Programme, based on the materials allowed in by Israel, it would have taken 80 years to rebuild the 6,000 housing units destroyed during the military operation in December 2008 – January 2009. However, imports through the tunnels were so significant that they reduced the time frame to five years (Pelham, 2011). Similarly, Gaza's power plant ran on diesel from Egypt brought through the tunnels in the range of 1 million litres per day before June 2013 (OCHA, 2013).[5]

55. Nevertheless, tunnels could not supply Gaza with the level and composition of imports needed for rebuilding a productive economy and, equally importantly, tunnels had no impact on Gaza's export sector. Therefore, the end of the tunnel economy makes the complete and immediate lifting of Israel's blockade on Gaza more urgent than ever if Gaza is to have a chance to avoid further damages and develop into a liveable place.

E. Donor support is necessary but not sufficient for the recovery and development of the Gaza Strip

56. Following the ceasefire in August 2014, Gaza's reconstruction has been slow due to the continued blockade and inadequate flow of donor support. By May 2015, not a single destroyed home had been rebuilt and no progress had been achieved in the reconstruction and repair of the destroyed infrastructure, factories, houses, hospitals and schools (UNRWA, 2015b).

57. The Palestinian National Authority drafted a *National Early Recovery and Reconstruction Plan*, in which the cost of relief, recovery and reconstruction was estimated at $4 billion, equivalent to 137 per cent of Gaza's GDP and 146 per cent of the Authority's total revenue in 2014, and thus evidently far beyond the capacity of the Authority.

58. At the Cairo Conference on Palestine – Reconstructing Gaza, held in October 2014, donors pledged $5 billion to the Occupied Palestinian Territory, of which $3.5 billion was pledged for Gaza. Eight months on, by mid-May 2015, only 27 per cent of the sums pledged had actually been disbursed (World Bank, 2015). Of the $3.5 billion in pledges for Gaza, only $2.5 billion was for new pledges. The latter represents only 63 per cent of the cost of reconstruction and therefore falls short of the funds needed to return Gaza to the situation before the military operation, when socioeconomic conditions were at their lowest point since 1967. Additional pledges, with timely fulfilment and disbursement, are critical for the reconstruction of Gaza. It should also be stressed that the scope and rationale for the funds required for Gaza's relief, reconstruction and recovery must be based on the fact that

[5] According to OCHA, the subsidized diesel imported from Egypt through the tunnels cost one third of the price of diesel imported from Israel. This suggests that the million litres of diesel per day from Egypt was, in effect, undeclared Egyptian support to the Palestinian people of about $440 million a year. However, the total implicit Egyptian support was much higher, as other products imported from Egypt into Gaza were also subsidized, including pharmaceuticals, flour and construction materials.

the devastation in Gaza is not only the result of the latest military operation but rooted in a prolonged occupation and blockade and the recurrent destruction of infrastructure.

59. The Palestinian people need to secure their human right to development under international law far more than they need donor aid. They are a well-educated and creative people who are more than capable of self-sufficiency if allowed to produce and trade normally with the rest of the world. However, self-sufficiency in Gaza is impossible under conditions of blockade and periodic destruction of infrastructure and private assets. While donor aid is important for extending a lifeline to the beleaguered people of Gaza, aid should not be viewed as a substitute for ending the blockade and calling on Israel to fulfil its obligations under international law.

60. If the current blockade and insufficient levels of donor support persist, even with a reversion to the status quo that prevailed before the latest military operation, Gaza will become economically unviable and the already grim socioeconomic conditions can only deteriorate. The likely outcome will be more conflict, mass poverty, high unemployment, shortages of electricity and drinking water, inadequate health care and a collapsing infrastructure. In short, Gaza will be unliveable, as emphasized by the United Nations (2012).

61. To the extent possible, relief should be embedded in a development plan aimed at achieving pro-poor, sustainable recovery. In addition, reconstruction efforts should prioritize rebuilding infrastructure and productive assets, with special attention accorded to employment-intensive projects that have the potential for high value added and strong forward and backward linkages.

62. A modest start to relieve Gaza of the prolonged economic blockade is operationalization of the Agreement on Movement and Access signed by Israel and the Palestinian National Authority in 2005. The Agreement requires Israel to facilitate the movement of goods and people from, to and within Gaza, and entails reconnecting Gaza with the West Bank, construction of Gaza's seaport and commencement of discussion for the construction of an airport. A Palestinian State cannot be economically viable without reintegration of the West Bank, including East Jerusalem, with Gaza, with the latter acting as the seaport of a future Palestinian State.

63. To end the Palestinian energy dependence on Israel, the Palestinian National Authority should be allowed to develop and use natural gas in Gaza's offshore fields, not only to improve the Authority's revenue and reduce aid dependence, but more importantly to operate power plants in Gaza and the West Bank.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

64. In 2014, UNCTAD assistance to the Palestinian people continued, guided by paragraph 31 (m) of the Doha Mandate, paragraph 44 of the Accra Accord and paragraph 35 of the Sao Paulo Consensus, and in line with the United Nations Strategic Framework for 2014–2015. The programme addresses the constraints to and evolving needs of the economy of the Occupied Palestinian Territory through four clusters:

(a) Trade policies and strategies

(b) Trade facilitation and logistics

(c) Finance and development

(d) Enterprise, investment and competition policy

65. UNCTAD has been supporting the Palestinian people through research, the provision of advisory services, building international consensus on the needs of the Palestinian economy and implementing technical cooperation projects.

B. Operational activities under way

66. In 2014, UNCTAD continued to implement a project on developing Palestinian trade facilitation capacity. The project used a two-pronged approach to consolidate and strengthen the institutional capacity of the Palestinian Shippers' Council and increase the private and public sector's awareness of best practices in trade facilitation. The three newly established organizational units (technical, legal and training) in the Council enhanced the capacities of beneficiaries and resulted in a more efficient Palestinian trade facilitation supply chain. In addition, under the project, eight workshops were held on the following: import regulations for food industries; using the smart card system; gender mainstreaming in the business of the Council; role of women in international trade; import regulations for the ICT sector; import regulations for chemicals; interpretation and applications of the eighth version of the International Commercial Terms (2010); and training in legal services.

67. UNCTAD organized study tours to international and regional ports in Greece, Jordan, Spain and the former Yugoslav Republic of Macedonia to introduce members and professional staff of the Palestinian Shippers' Council to international standards and best practices in trade facilitation. UNCTAD also supervised the Palestinian Shippers' Council in the production of reference papers on the Agreement on Trade Facilitation of the World Trade Organization, on smuggling and on building the trade facilitation capacity of the private sector. Finally, the Council forged new partnerships with a number of national and international organizations.

68. The training programme established under the project generated new job opportunities, particularly for a number of youth, who became certified trainers upon completing a train the trainers course. Project implementation in 2014 also included the convening of the first international trade facilitation conference in the Occupied Palestinian Territory, with the participation of national and international experts. The conference, opened by the Prime Minister of the State of Palestine, addressed pertinent trade facilitation issues.

69. UNCTAD continued to work closely with the United Nations Country Team and contribute to the finalization and implementation of the United Nations Development Assistance Framework for the Occupied Palestinian Territory, as well as contributing to reports by the United Nations and other agencies, including reports and notes of the Secretary-General on socioeconomic conditions in the Occupied Palestinian Territory.

70. As in previous years, UNCTAD, in collaboration with the United Nations Division for Palestinian Rights, trained a young Palestinian diplomat. This training introduced the diplomat to the United Nations system in Geneva, Switzerland, covering the scope of the work of UNCTAD, including the annual session of the Trade and Development Board, and the work of other United Nations agencies and offices in Geneva.

71. The role of UNCTAD as the United Nations focal point for Palestinian trade and development issues was acknowledged and reinforced by General Assembly resolution 69/20, which requests UNCTAD to "report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people".

C. Coordination, harmonization and resource mobilization

72. In 2014, UNCTAD continued to achieve tangible progress in its assistance to the Palestinian people, in coordination with the Palestinian National Authority, Palestinian civil society, the United Nations and other international agencies and the donor community.

73. However, the need for additional resources to deliver technical cooperation support has become more urgent in 2014–2015. There is a risk of losing one of three professional posts in the Assistance to the Palestinian People Unit due to the lack of extrabudgetary resources. This loss would undermine the ability of the programme to deliver on its mandate. In addition, vital projects in the areas of customs modernization, investment promotion and small and medium-sized enterprise development remain without funding. Finally, fulfilment of General Assembly resolution 69/20 will require significant additional regular budget and extrabudgetary resources. Securing such resources is necessary to respond to the complex needs of the Palestinian economy and to mitigate the impact of occupation through the development of institutional capacities and sound policymaking and the provision of research and advisory services.

References

IMF (2015). West Bank and Gaza: Key issues. Ad Hoc Liaison Committee Meeting. Brussels. May.

Jesus Fernandez-Villaverde J, Guerron-Quintana P, Kuester K and Rubio-Ramirez J (2013). Fiscal volatility shocks and economic activity. November. Available at: http://economics.sas.upenn.edu/~jesusfv/fiscaluncertainty.pdf (accessed 1 July 2015).

Kock U and Qassis H (2011). West Bank and Gaza: Recent Developments in Clearance Revenues. October Available at: imf.org/external/country/WBG/RR/2011/102711.pdf (accessed 1 July 2015).

OQR (2014). Gaza: Opportunities for reconstruction and economic development. October. Available at: http://unispal.un.org/pdfs/QuarRep_GazaEconRpt.pdf (accessed 1 July 2015).

Palestinian Central Bureau of Statistics, Food and Agriculture Organization of the United Nations, UNRWA and World Food Programme (2014). Joint press release: Food insecurity in Palestine remains high. June. Available at http://www.unrwa.org/newsroom/press-releases/food-insecurity-palestine-remains-high (accessed 1 July 2015).

Palestinian Economic Council for Development and Reconstruction (2014). Annual Report.

Palestinian Ministry of Finance (2015). Fiscal developments: First quarter 2015.

Palestinian Water Authority (2014). Water Sector Damage Assessment Report. August.

Pelham, N (2011). Gaza's Tunnel Phenomenon: The Unintended Dynamics of Israel's Siege. *Journal of Palestine Studies*. 164(4):6–31.

Save the Children (2015). Joint statement: 30 international aid agencies – "We must not fail in Gaza". February. Available at https://www.savethechildren.net/article/30-international-aid-agencies-we-must-not-fail-gaza (accessed 1 July 2015).

UNCTAD (2009). Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory. TD/B/56/3. Geneva. 7 August.

UNEP (2009). *Environmental Assessment of the Gaza Strip Following the Escalation of Hostilities in December 2008–January 2009*. United Nations publication. Nairobi.

United Nations (2012). Gaza in 2020: A Liveable Place? Office of the United Nations Special Coordinator for the Middle East Peace Process. August.

_____ (2014). Report of the Committee on the Exercise of the Inalienable Rights of the Palestinian People. A/69/35. New York. 7 October.

OCHA (2013). Occupied Palestinian Territory: Gaza fuel crisis. Situation report. November.

_____ (2014a). Area C of the West Bank: Key humanitarian concerns. August.

_____ (2014b). Map of West Bank access restrictions. September.

_____ (2014c). Gaza crisis: Situation overview. October. Available at: http://www.ochaopt.org/content.aspx?id=1010361 (accessed 1 July 2015).

_____ (2015). Humanitarian bulletin. Monthly report – January.

UNRWA (2015a). Gaza situation report. Issue No. 89. April.

_____ (2015b). Gaza situation report. Issue No. 93. May.

WHO (2014). Gaza Strip: Joint health sector assessment report.

World Bank (2009). Assessment of restrictions on Palestinian water sector development. Report No. 47657-GZ.

_____ (2014a). Economic monitoring report. Ad Hoc Liaison Committee Meeting. New York. September.

_____ (2014b). Assessment and action plan to improve payment for electricity services in the Palestinian Territories. Report No. ACS9393.

_____ (2015). Economic monitoring report to the Ad Hoc Liaison Committee. Report No. 96601.